

VZCZCXRO7332
RR RUEHIK
DE RUEHSM #0714/01 3171226
ZNR UUUUU ZZH
R 131226Z NOV 09
FM AMEMBASSY STOCKHOLM
TO RUEHC/SECSTATE WASHDC 4902
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHNY/AMEMBASSY OSLO 2546
RUEHRA/AMEMBASSY RIGA 0873
RUEHTL/AMEMBASSY TALLINN 0006
RUEHVL/AMEMBASSY VILNIUS 2020
RUEATRS/DEPT OF TREASURY WASH DC

UNCLAS SECTION 01 OF 02 STOCKHOLM 000714

SIPDIS

TREASURY FOR DAVID WRIGHT

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [SW](#)

SUBJECT: GOVERNMENT OF SWEDEN STIMULATES THE ECONOMY, AND VOTERS,
WITH 2010 BUDGET BILL

REF: A) STOCKHOLM 1852; B) STOCKHOLM 2001; C) STOCKHOLM 2024; D)
STOCKHOLM 2107

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11. (U) Summary: On September 21, the Swedish Government presented its Budget Bill for 2010 to Parliament. The Budget is geared to both combat the economic recession, and garner votes in 2010 national elections. According to the Swedish Government, the SEK 32 billion (USD 4.6 billion) in new spending will serve five goals: 1. stem the fall in employment; 2. prevent unemployment from becoming persistent; 3. defend core welfare activities; 4. encourage more business creation and business growth; and 5. protect the environment. End summary.

The Swedish budget process

12. (U) The September "Budget Bill" proposes SEK 32 billion (1 percent of GDP) in additional spending beyond what was planned in the Spring Fiscal Policy bill. Twice a year, in April and September, the Swedish Minister for Finance delivers the Government's spending plans to the Parliament for approval. These proposals are known as the "Spring Fiscal Policy Bill" and the "Budget Bill," which form the two stages of a process leading to the Government's proposed budget for central government spending. The Spring Fiscal Policy Bill contains the Government's proposed broad guidelines for economic and budget policy over the next few years. The September Budget Bill contains more detailed plans that have been fashioned into a budget for the next year. This budget provides detailed proposals on allocation of government expenditures and revenue to different areas. The budget bill will be voted on in Parliament in December after the opposition has presented its alternative budgets and the Parliament has decided on a spending cap.

Economic outlook

13. (U) The sharp downturn in the global business cycle has hit the export-dependent Swedish economy hard. This year the Government expects GDP to fall by 4.9 percent on an annual basis, which would make this the weakest year since the Second World War. Unemployment is expected to reach 10.7% in 2010, before starting to decline in the beginning of 2011. The response in the Budget Bill is to allocate funding to improve the functioning the government's labor market services, as well as additional funding to universities and students.

Public finances

14. (U) Thanks to economic growth and conservative fiscal policy, Sweden had a surplus heading into the global economic crisis, so the deficits caused by the government's fiscal stimulus spending are moderate. Sweden is among the countries with the smallest public

debt, and enjoys a high ranking by the EU Commission for the long-term sustainability of public finances. A deficit in the public sector as a whole is expected for all the years 2009-2012. The general government budget deficit is estimated to be -2.2 per cent of GDP in 2009 and -3.0 per cent in 2010. The deficit will gradually decline in 2011 and 2012.

Expenditure ceiling

15. (U) Multi-year expenditure ceilings represent an important budget policy commitment of the Government and Parliament, and have strengthened the credibility of economic policy. The expenditure ceiling has been met each year since it was introduced in 1997, although politicians (in Sweden and all countries) are creative at moving expenditures from one year to another if needed to stay within a ceiling. For several years, the expenditure ceilings have decreased or been constant as a percentage of GDP. As a consequence of weak or declining GDP growth, the expenditure ceiling as a percentage of GDP is higher in each of the years 2009-2011 than in 2007, although the nominal annual rate of increase is in line with or somewhat lower than during the last five-year period.

Tax credit

16. (U) One of the government's claims to be successfully steering Sweden through the economic crisis are government measures to "make work pay," i.e. to allow working people, especially lower wage earners, to keep more of their pay. Finance Minister Anders Borg has told Embassy officers of the importance of increasing the benefits from employment in order to encourage workers to stay in the labor force. The "in-work tax credit" remains a key part of the government's policy. The government initially introduced an in-work tax credit in three steps. The Budget Bill proposes that a fourth step enter into force on 1 January 2010, and that the in-work tax

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credit be expanded by SEK 10 billion. If this is done, the tax on earned income will have been reduced by a total of about SEK 71 billion between 2006 and 2010. The in-work tax credit is expected to account for 75,000 new, permanent jobs.

Responding to the crisis with new spending

17. (U) In the Budget Bill, the Government will allocate SEK 32 billion (USD 4.6 billion) in new spending for 2010 and SEK 24 billion for 2011, in addition to spending already approved or announced. The government is balancing stimulus measures to get Sweden out of the recession with measures to gain additional votes ahead of the election. Recipients of increased spending therefore include pensioners, workers, students, municipalities etc., making sure that everyone gets a bite at the apple. However, not all are happy with the budget; the government has received substantial criticism from the opposition for reducing taxes while running up a budget deficit.

Intended effects

18. (U) The tax cuts proposed will increase household disposable income and help private consumption recover in 2010. According to the government, the disposable income would increase by 0.4 per cent next year without these measures. With the proposed measures, it is expected to increase by 1.2 per cent.

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